Banking

Pre-emptive OPR Cut

OVERWEIGHT

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By Clement Chua I clement.chua@kenanga.com.my

Yesterday's BNM MPC meeting concluded with a 25 bps OPR cut, which was a surprise to us. BNM cited the cut to be more pre-emptive in nature due to heightened and prolonged macroeconomic uncertainties tied to developments in global trades. The move is also intended to preserve the economic trajectory of the country, while it still sees underlying demand to be supportive and sustainable. We gather from BNM that it will not likely implement a second rate cut, unless data points skew unfavourably in the future. Meanwhile, we do not expect further rate cuts in CY25 for now.

With regards to the banks under our coverage, reflecting the 25 bps cut reveals sensitivity for annualised NIMs to lower by 1 bps to 4 bps, and an earnings impact to decrease by 1%-4%. Retail-centric banks (HLBANK, PBBANK) see a larger dent that its peers, which we opine is owing to a larger variable loans mix (mainly mortgage).

As we also find that the market may have likely priced in an OPR cut, sector valuations have stayed supportive at its trough levels. From our simulations, we gathered that the market is likely pricing in pandemic-level loans growth of c.3.5%, which we opine is unwarranted as economic prospects are relatively intact. Hence, we maintain our OVERWEIGHT call.

Our sector Top Picks are: (i) AMBANK (OP; TP: RM6.90) for its optimisation efforts, and emphasis on earnings sustainability to lift ROE, (ii) CIMB (TP: RM7.90) as its recent share price weakness are offering a more palatable entry with c.6% dividend returns to mitigate concerns over its more challenging regional operations, and (iii) MAYBANK (OP; TP: RM12.00), which continues to take market share among the big caps and is poised to lead in terms of earnings growth and dividend yield in the longer term. Meanwhile, the lower interest rates would likely benefit high GIL lenders such as MBSB as well as AEONCR (OP; TP: RM6.25), which has a high fixed rate loan composition.

Slight dampener to earnings. As we reflect a lower OPR of 2.75% to our model assumptions for 3QCY25 (commencing Jul 2025), this translates to an earnings decrease of 1%-4% purely from lower adjusted NIMs. While asset yield compresses slightly, we believe it would bring a longer-term relief to the deposits market, allowing competition to soften further as banks also gradually recalibrate their funding mix. This is further thanks to the recent 100 bps release in SRR which boosts capital liquidity between the banks.

Exhibit 1: Impact to NIM Assumptions from OPR Cut

Name	Previous NIM Assumptions		NIMs Sensitivity		Updated NIM Assumptions		Earnings Revision	
	FY25F/FY26F	FY26F/FY27F	FY25F/FY26F	FY26F/FY27F	FY25F/FY26F	FY26F/FY27F	FY25F/FY26F	FY26F/FY27F
AFFIN	1.76%	1.81%	-1.2 bps	-2.3 bps	1.75%	1.79%	-1.7%	-3.0%
AMBANK *	2.02%	2.03%	-2.3 bps	-1.5 bps	2.00%	2.02%	-1.6%	-1.0%
BIMB	2.62%	2.63%	-2.1 bps	-2.9 bps	2.59%	2.60%	-0.7%	-0.9%
CIMB	2.28%	2.23%	-1.5 bps	-3.0 bps	2.26%	2.20%	-1.0%	-2.0%
HLBANK ~	1.80%	1.83%	0.0 bps	-4.1 bps	1.80%	1.79%	0.0%	-2.1%
MAYBANK	2.04%	2.06%	-2.2 bps	-3.7 bps	2.02%	2.02%	-1.7%	-2.8%
MBSB	2.56%	2.54%	-2.1 bps	-4.5 bps	2.54%	2.49%	-1.7%	-3.7%
PBBANK	2.17%	2.12%	-1.8 bps	-3.4 bps	2.15%	2.08%	-1.0%	-2.0%
RHBBANK	1.86%	1.90%	-1.9 bps	-3.9 bps	1.85%	1.86%	-1.6%	-3.1%

Notes:
** Financial Year Ending March*
~ Financial Year Ending June

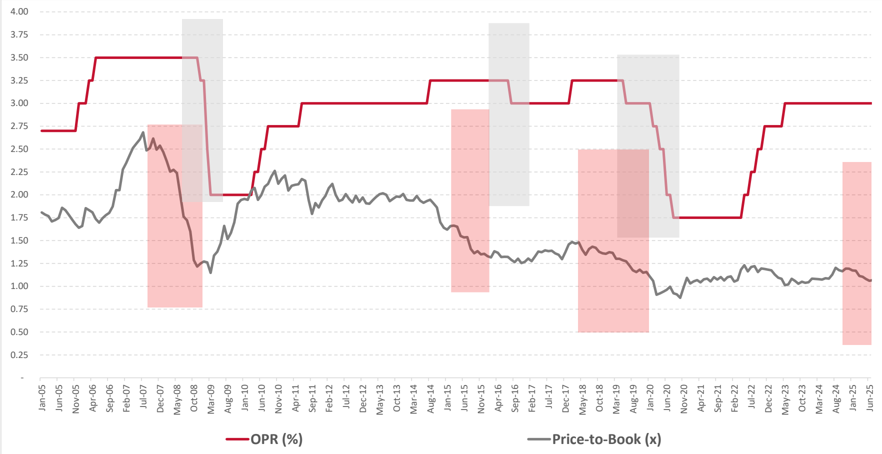
Source: Kenanga Research

We have not adjusted for potentially stronger loans appetite from lower interest rates, nor potential fair value gains from fixed income markets (given that bond gains would have been possible as MGS yields trended lower since 2QCY25), preferring to remain prudent in anticipation that global macros continue to remain soft. Still, we opine the beneficiaries in a lower rate environment could benefit mortgage-heavy banks such as **HLBANK** and **PBBANK,** as slightly more affordable lending could spur demand**.** Meanwhile, banks with a higher CASA mix (**CIMB, BIMB, AMBANK**) would be able to leverage on the lower interest rates relative to those with higher fixed deposit content (**MBSB, PBBANK, RHBBANK)**.

Further deterioration of sector valuations not expected. Aside from the lower earnings projections, we do not anticipate investors to ascribe softer valuations following the announcement. Referencing prior rate cut cycles, we identified that valuations would typically deteriorate ahead of the announcements and stabilise in the subsequent months. This also jives with our earlier expectations that sector valuations have reached its trough levels, being at -1SD within a 10-year band (Exhibit 2) while further reflected in the industry's toppish ROE/PBV readings (Exhibit 3).

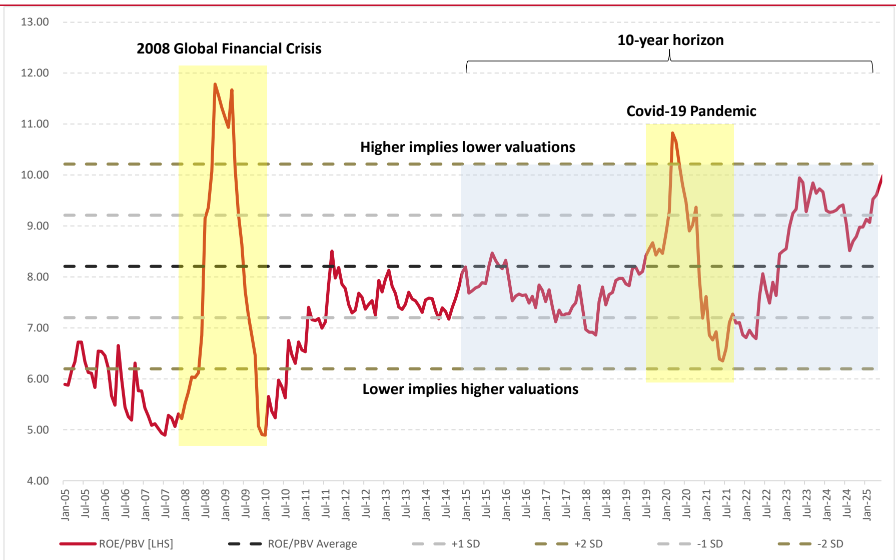
Meanwhile, we had also conducted simulations against our GGM inputs to ascertain at what levels of loans growth which the market could be ascribing at current valuations, which we had arrived to pandemic-level rates of c.3.5% (Exhibit 4)

Exhibit 2: PBV Decline Typically Precedes Rate Cuts



Source: BNM, Companies, Kenanga Research
** Others include non-listed local and foreign financial institutions*

Exhibit 3: KLFIN's ROE/PBV Readings at Toppish Levels



Source: BNM, Companies, Kenanga Research
** Others include non-listed local and foreign financial institutions*

Exhibit 4: Kenanga's GGM Simulation on Market Implied ROEs and Loans Growth (non-Underperform Calls)

Bank	Last Price	FY26 ROE *(Post rate cut)*	Implied ROE *(assuming our respective GGM inputs hold)*	Implied loans growth assumptions
AMBANK	5.09	9.9%	8.2%	2.1%
BIMB	2.28	8.0%	7.5%	3.0%
CIMB	6.57	11.2%	10.5%	1.8%
HLBANK	19.36	10.9%	9.0%	Assuming BOCD contributions fall by 50%
MAYBANK	9.70	10.7%	10.5%	6.0%
MBSB	0.705	5.1%	6.0%	5.1%
PBBANK	4.26	12.2%	11.6%	2.3%
RHBBANK	6.31	9.5%	8.5%	1.8%

Source: Companies, Kenanga Research

Maintain OVERWEIGHT on the banking sector. BNM's recognition of prolonged global uncertainties will likely be echoed across the sector, priming the need to deliver further support for economic growth. For the Malaysian banking loans scene at least, we still see resilience at an anticipated system loans growth of c.5.5%, which most of the large cap banks are able to beat. Meanwhile, with asset quality hovering at its healthiest levels (<1.5%), this may further open the banks' lending appetite to make up for the declining asset yields. Even after the adjustments to earnings, the sector should still deliver yearly earnings growth of 3%-4% supported by industry dividend yields of 5%-6%.

For 3QCY25, our Top Pick is **AMBANK** on the back of a more solid ROE backbone as the group focuses on stronger earnings drivers as opposed to gaining market share in less profitable segments. Following its recent transition into FIRB, the group's newly acquired CET-1 levels of c.15% have led to more generous dividend pay-outs and make AMBANK one of the leaders in dividend yield prospects (c.6%).

Between the large cap banks, **CIMB** would be our preferred pick. Amid its sell-down and concerns arising from Indonesia, we opine the risk-reward for the stock is the most favourable while offering c.6% dividend yield alongside an anticipated 11% ROE. Meanwhile, in the event of market-wide sentiment recovery, we believe **CIMB** may likely experience the highest capital gains as foreign investors return to the stock. Meanwhile, we also like **MAYBANK** as despite its leading market share, it still holds better-than-industry asset quality (Mar 2025: 1.27% vs industry's 1.42%). We take a longer-term view on MAYBANK as in the event industry headwinds shift to tailwinds, its scale could allow it to benefit the most in terms of loans book acquisitions and NIM expansion from its better economies of scale.

Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net. Div. (sen)	Net Div Yld.
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
AFFIN BANK BHD	UP	2.63	2.30	-12.5%	6,664	N	12/2025	23.4	24.9	16.2%	6.4%	11.2	10.6	0.6	5.0%	10.0	3.8%
AMMB HOLDINGS BHD	OP	5.09	6.90	35.6%	16,801	N	03/2026	63.8	65.9	5.4%	3.3%	8.0	7.7	0.8	10.0%	31.5	6.2%
BANK ISLAM MALAYSIA BHD	MP	2.28	2.40	5.3%	5,168	Y	12/2025	24.9	28.2	-1.4%	13.6%	9.2	8.1	0.7	7.3%	15.0	6.6%
CIMB GROUP HOLDINGS BHD	OP	6.57	7.90	20.2%	70,648	N	12/2025	75.1	77.9	4.0%	3.7%	8.7	8.4	1.0	11.3%	42.0	6.4%
HONG LEONG BANK BHD	OP	19.36	24.50	26.5%	41,967	N	06/2025	221.2	219.3	8.1%	-0.9%	8.8	8.8	1.0	10.7%	71.0	3.7%
MALAYAN BANKING BHD	OP	9.70	12.00	23.7%	117,187	N	12/2025	85.7	88.5	2.4%	3.4%	11.3	11.0	1.2	10.7%	65.0	6.7%
MBSB BHD	MP	0.705	0.720	2.1%	5,797	Y	12/2025	7.3	7.5	29.5%	1.5%	9.6	9.5	0.5	5.3%	3.5	5.0%
PUBLIC BANK BHD	OP	4.26	5.25	23.2%	82,690	N	12/2025	37.6	38.3	2.1%	1.9%	11.3	11.1	1.4	12.5%	23.0	5.4%
RHB BANK BHD	OP	6.31	7.80	23.6%	27,524	N	12/2025	71.7	74.4	-0.4%	3.7%	8.8	8.5	0.8	9.4%	44.5	7.1%
SECTOR AGGREGATE					**374,445**					**3.7%**	**2.8%**	**10.1**	**9.8**	**1.1**	**10.4%**		**5.6%**

Name	Terminal growth (%)	Sustainable ROE (%)	Cost of Equity (%)	Applied PBV (x)	Target Price (RM)	Call	Remarks
AFFIN BANK BHD	3.0	6.25	9.9	0.47	2.30	UP	
AMMB HOLDINGS BHD	3.0	10.0	9.9	1.02	6.90	OP	
BANK ISLAM MALAYSIA BHD	3.5	8.0	10.2	0.67	2.45	MP	
CIMB GROUP HOLDINGS BHD	3.5	11.5	11.2	1.05	7.90	OP	+5% ESG Premium
HONG LEONG BANK BHD	-	-	-	-	24.50	OP	Sum-of-Parts
MALAYAN BANKING BHD	3.5	12.0	9.5	1.41	12.00	OP	
MBSB BHD	3.0	6.0	9.2	0.48	0.720	MP	
PUBLIC BANK BHD	4.0	13.0	9.9	1.54	5.25	OP	+5% ESG Premium
RHB BANK BHD	2.5	10.0	10.2	0.98	7.80	OP	

Source: Kenanga Research

Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*******Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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KENANGA INVESTMENT BANK BERHAD (15678-H)
Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my